

2006 CONTRIBUTION LIMITS FOR 401(k), 403(b), and 457 PLANS

The Federal government regularly sets the limits on benefits and contributions for qualified retirement plans. PERSI feels it is important to pass along this information.

Limits for 401(k), 403(b) and 457 Plans

The annual limits for voluntary contributions to 401(k), 403(b) and 457 plans have been increased to \$15,000 for 2006. Beginning next year, the maximum pre-tax contribution limit will be indexed in \$500 increments for inflation.

For 2006, an individual may contribute from 1-100 percent of their income to the Choice Plan 401(k) as long as the \$15,000 limit and their net earnings after deductions are not exceeded.

For those deferring to a 457 Deferred Compensation Plan and a 401(k) plan OR a 457 Plan and a 403(b) plan, in most cases they can contribute \$15,000 to each plan. However, if someone is deferring to 401(k) and a 403(b) plans, they are limited to \$15,000 in total contributions between both plans.

Catch-up Provision

Members who will be age 50 or older by the end of 2006 may be eligible to make additional contributions to their Choice Plan. For 2006, the catch-up dollar limit for 401(k), 403(b) and 457 plans is \$5,000. This means those who turn 50 in 2006 may contribute a whopping \$20,000 to the Choice Plan 401(k) if they don't also defer into a 403(b) plan. Beginning in 2007, limits will be subject to cost-of-living adjustments in \$500 increments. [**Note:** 457 Plans have an additional catch-up provision that allows a participant, in one or more of the three years ending before normal retirement age, to defer the lesser of twice the dollar limit (\$30,000 in 2006) or the dollar limit (\$15,000 in 2006) plus any amounts the dollar limit in preceding years

exceeded actual deferrals. Members may apply the \$5,000 catch-up limit OR the 457 additional catch-up provision, but not both. Questions about the 457 plan should be directed to the plan administrator.]

Members may also take advantage of the 401(k) or 403(b) catch-up provisions even if they are planning to use the catch-up with a 457 plan.

IRA Contribution Increases

Some members may also be eligible to make after tax contributions to Roth IRAs. The maximum annual contribution to a Roth IRA is \$4,000 for 2006, and will increase to \$5,000 in 2008. Beginning in 2009, contributions will be indexed for COLA increases in \$500 increments. Members are urged to check with their IRA plan administrator about personal limits and eligibility.

Sunset Provision

The Economic Growth and Tax Relief Reconciliation Act contains a "sunset" provision that calls for a return to prior laws in 2011. Unless this provision is repealed before 2011, the catch-up provisions and higher limits will no longer be available. While enormous pressure will be put on Congress to extend the provisions, the decision will be affected, in part, by current economic conditions and the federal budget. Members should consider taking advantage of this opportunity to increase their contributions and save on taxes so they are better prepared for retirement.

Changing 401(k) Contributions

If members want to begin or change their Choice Plan contributions, they should complete a Choice Plan Enrollment form available on the PERSI Web site at www.persi.state.id.us. The completed form should be return to the member's payroll office at work; PERSI does not need the form.



(Above)
PERSI's Executive Director Alan Winkle presents Betsy Griffith with her Employee of the Year Award.

Congratulations!

(Below)
PAC Manager Judy Aitken receives her Manager of the Year award from PERSI Executive Director Alan Winkle.



Notes

PERSI recognized two outstanding staff members at its year-end luncheon. **Betsy Griffith**, who divides her time between the Education Program and Choice Plan, was awarded Employee of the Year. **Judy Aitken**, manager of the PERSI Answer Center and long-time PERSI employee, received Manager of the Year recognition. PERSI is proud to have two such exceptional women in its ranks.

PERSI received a Certification of Achievement for Excellence in Financial Reporting for its 2004 Comprehensive Annual Financial Report (CAFR) from the Government Finance Officers Association of the United States and Canada.



(Above)
Jody Olson, Chairman of the PERSI Retirement Board (right), presents the plaque from the Government Finance Officers Association to PERSI's Chief Financial Officer Jim Monroe and senior account Rhonda Yadon, who plays an instrumental role in preparing the CAFR.

CORRECTION

The PERSI MEMBERSHIP AND PERSONAL IRAs article in the September 2005 issue of News To Use contained an error. The article referenced IRS Publication 509; however, it should have been IRS Publication 590. I apologize for any inconvenience this oversight may have caused.

Patrice Perow, Editor